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Your Reference 0109, 0111, 0112, 0113, 0114

Re: Modification Proposals:

0109: Acceptable Security Tools available to Users for Transportation Credit Arrangements

0111: Management of Users Approaching and exceeding Upper Limits of Credit Limit

0112: Aggregation of Credit Positions or Use of Group Ratings

0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment

0114: Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposals. As the proposer National Grid (UK Distribution) (UKD) offers support for implementation of all of these Proposals.

Each Modification Proposal seeks to implement industry best practice measures in respect of credit cover identified in Ofgem's Conclusions Document "*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*" and from a governance perspective UKD recognises Ofgem's preference for key credit cover arrangements to be set out in commercial codes in the interests of transparency¹.

Detailed explanation of the operation of each proposal and our view of how each facilitates the GT Licence Relevant Objectives is detailed within sections 1 and 2 of the respective Draft Modification Reports. For the purposes of this representation, we have the following additional comments:

0109: Acceptable Security Tools available to Users for Transportation Credit Arrangements

Inclusion of Security Tools within the Uniform Network Code (UNC) would ensure that all Transporters are obliged to allow the use of a consistent range of credit tools by Users. As all the tools defined are already acceptable to UKD this would appear to be a reasonable proposal that for UKD has no specific implementation requirements.

0111: Management of Users Approaching and exceeding Upper Limits of Credit Limit

UKD supports implementation of terms in the UNC that would allow a User to utilise the full extent of its credit cover in absence of the application of sanctions by the Transporter. UKD believes it is appropriate that sanctions are only applied where a User's indebtedness exceeds the full value of the credit security in place. Where such a breach occurs, UKD supports the implementation of effective and proportionate measures to ensure that a User takes prompt action to address the value of its security in place for the protection of the industry as a whole. We believe that the measures proposed strike this balance.

¹ Ofgem document '*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*' 58/05 – Summary
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0112: Aggregation of Credit Positions or Use of Group Ratings

The use of Parent Company Guarantees and the rules regarding their application as detailed within the Proposal are already acceptable to, and operated by, UKD. This would appear to be a reasonable proposal that for UKD has no specific implementation requirements.

0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment

UKD supports the implementation of provisions that afford unsecured credit to a wider range of Users. To determine the level of that unsecured credit, it appears appropriate to utilise credit rating agencies (other than those providing the Approved Credit Ratings already permitted under the UNC). Alternatively, use of other factors which indicate the likelihood of the User to settle its invoices in a timely manner would appear appropriate and this is addressed by taking account of a User's payment history.

In response to the question raised by the Subject Matter Expert in section 14 of the Draft Modification Report, we are of the view that at implementation, account should be taken of a User's payment history pre implementation to determine its entitlement to unsecured credit under these provisions.

0114: Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements

UKD recognises that the existing credit rules (in taking account of peak trading values) require an unnecessarily high value of credit security to be in place for a User. This is especially apparent for Users with a high proportion of domestic customers where there is a significant reduction of gas transported in summer months. The alternative provisions described in this Proposal link the minimum level of security required to actual volumes transported within the previous calendar month and therefore allow the User the option of tailoring its security level accordingly within the year.

Whilst in general the above Proposals reduce the overall level of security required to be posted by Users (and therefore arguably increases risk of unsecured losses occurring), UKD notes the ability (as identified in all of the Draft Modification Reports) for a Transporter to secure pass through of any bad debt it incurs where it is able to demonstrate compliance with best practice. The above Proposals seek to implement this best practice.

Ofgem clarified the operation of this pass through in its Best Practice Guidelines whereby under normal circumstances, at the subsequent price control review the Transporter will be permitted to raise up to the full value of the bad debt from regulated charges, including an allowance for the cost of funding the loss pending recovery.

If you require any further information in respect of this representation please contact Chris Warner on 07778 150668 or email chris.warner@uk.ngrid.com.

Yours sincerely

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